



Reducing Costs and Gaining Efficiencies in the Federal Government

April 2005

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Reducing Costs and Gaining Efficiencies in the Federal Government

The Federal Government is working to ensure that taxpayer dollars buy more and go farther every year. The American taxpayers expect it and the Federal Government can deliver it.

The government is: eliminating the \$40 billion we overpay each year; reducing by \$6 billion per year what we pay for commercial services; disposing of \$15 billion in unneeded government real property and redirecting funds to higher priority asset management uses; using technology to cut costs; holding agencies accountable for program performance to get more out of every dollar we spend; and strengthening financial disciplines so as to provide managers with the timely and accurate financial information they need to make smarter cost decisions.

Eliminating \$40 Billion Per Year in Overpayments

For the first time, the Federal Government is regularly reviewing its expenditures to better ensure that each taxpayer dollar is directed to its intended purpose. Total improper payments are estimated to be \$45.1 billion (about \$40 billion in overpayments and \$5 billion in underpayments), representing a 3.9% rate of total government expenditures subject to risk of error in payment.

- **\$1.6 billion in improper payments eliminated at HUD since FY 2000.** To achieve these savings, the Department of Housing and Urban Development (HUD) clarified its program guidance and strengthened its training and oversight activities. In addition, HUD intermediaries are making better decisions on who is eligible for payments by verifying the accuracy of income information reported by program recipients.
- **\$593 million in projected savings at SSA.** Social Security Administration expects these savings in its Supplemental Security Income (SSI) program by FY 2007, in addition to the \$100 million reduction in SSI improper payments already realized. SSA is accomplishing these cost savings through improved data matches that verify income, thereby ensuring an accurate payment.
- **\$371 million improper payments to be eliminated at DOL.** The Department of Labor projects these savings over the next 10 years by having access to the Department of Health and Human Services' National Database of New Hires. By using this database for data matching purposes, Labor can better prevent unqualified persons – those who have returned to work – from continuing to collect unemployment insurance.

Reducing the Cost of Commercial Activities by \$6 Billion Per Year

In the past two years alone, the government has determined that the commercial work performed by approximately 30,000 Federal employees can be performed for \$500 million per year less than we spend currently. We estimate that after reviewing the most efficient way to perform all our commercial activities, we will be able to reduce total commercial activity costs by more than \$6 billion per year.

- **\$1.7 billion in savings from an FAA competition.** The Department of Transportation's Federal Aviation Administration will engage a private contractor to perform its flight service station work to improve service and reduce costs \$1.7 billion over the next 10 years. (These projected savings are not included in the to-date savings previously identified above.)
- **\$207 million in projected savings at IRS.** The Department of the Treasury's Internal Revenue Service will consolidate its three Area Distribution Centers into one location (\$108 million) and improve the efficiencies at its information technology operations centers (\$99 million).
- **\$147 million from a Forest Service competition.** The United States Department of Agriculture's Forest Service will consolidate its approximate 150 IT operations into ten "server farms" to save \$147 million over 5 years.
- **\$73 million from a Navy competition.** The United States Navy will leverage technology and adopts customary commercial practices to save \$73 million over 5 years.

Making Better Use of \$15 Billion Worth of Unneeded Federal Real Property

The Federal Government estimates that within four years it can liquidate \$15 billion, or 5%, of the properties it no longer needs and put the money toward higher priority asset management uses.

- **\$649.5 million sale conducted by GSA.** On behalf of the United States Navy, the General Services Administration sold 3700 acres of surplus land in Southern California. This property included the former Marine Corps Air Station El Toro closed under the U.S. Defense Base Closure and Realignment Commission (BRAC), and it is now expected to be used by the City of Irvine for a variety of commercial, residential, and recreational uses. Upon close of the sale, the bulk of the proceeds will be deposited in the Navy BRAC account and directed to environmental cleanup efforts.
- **\$602.5 million sale conducted by GSA.** GSA assisted the Department of Interior's Bureau of Land Management with a public auction sale of 2,284 acres. Scheduled to close in August 2005, the sale is expected to create parks and natural areas, as well as support conservation initiatives and restoration projects.

Using Technology to Save over \$1 Billion

The E-Government initiatives are saving millions of taxpayer dollars by taking advantage of new technologies and improved electronic processes.

- **\$1 billion over 10 years in projected savings from E-payroll.** The E-payroll initiative expects to reduce costs by consolidating the government's 26 payroll providers into two payroll provider partnerships.
- **\$50 million in projected savings from Free File.** The Internal Revenue Service Free File initiative projects these savings over the next five years. By allowing citizens to file their taxes online at no cost, this program is significantly improving service to millions of taxpayers each year.

Getting More Out of Every Dollar We Spend

Using the Program Assessment Rating Tool (PART), we are establishing clear definitions of success – for both performance and cost – and setting aggressive targets for reducing the cost of achieving results. Three years into this five-year initiative, the government has so far assessed 607 programs.

- **67% of assessed programs are rated either “Effective,” “Moderately Effective,” or “Adequate.”** This compares to 45% in 2002, the first year the PART was used. We're getting better at demonstrating results – although 33% of government programs are not yet performing at desired levels.
- **71% of assessed programs have defined and are tracking clear outcome goals to measure their results.** The remaining 29% of government programs must establish better definitions of success.
- **67% of assessed programs have efficiency measures in place to reduce costs.** 33% of programs are working to establish measures of the cost of doing business.

Programs are not only improving their performance, they are achieving more for less. Program managers are isolating the cost factors that drive performance and working to reduce those costs.

- **Reducing the cost of admitting refugees.** Following a sharp rise in costs after 9/11, the Department of State's Refugee Admissions program has reduced the cost of admitting refugees to the United States by nearly \$1,000 per person. The Department will continue its efforts to further increase the efficiency and cost-effectiveness of the program, while addressing the needs of the new security environment.
- **Providing more drinking water for less.** The Environmental Protection Agency's Drinking Water State Revolving Fund is increasing the percent of population served by water systems that comply with health-based drinking water standards. This effort is improving efficiency and increasing the number of people drinking water that complies with health standards from 202,840 per million dollars spent to 233,645 per million dollars spent.

- **Eliminating excess DOE building space.** The Department of Energy Facilities and Infrastructure program eliminated 1.7 million square feet of excess building space in 2004 after looking at the efficiency of separate physical structures.
- **Reducing costs to process SBA loans.** The Small Business Administration is reducing the administrative costs of its Section 7(a) Guaranteed Loan Program loans by nearly \$1400 per loan.

Making Better Cost Decisions with the Help of Better Financial Information

Federal agencies are changing the way its finances are managed and accounted for to provide timely and accurate financial information to its managers so they can make better cost management decisions.

- **Timely Financial Statements.** Federal agencies have installed the financial disciplines that allow them to produce their financial statements in a shorter amount of time than ever before. A record 22 of the 24 major agencies submitted their financial reports by November 15. This 47-day financial reporting average – possible only because of recently installed, improved financial management disciplines – is more than one month faster than last year, more than three months faster than four years ago, and nearly a month faster than the 75 day-deadline for publicly-held companies in FY 2004.
- **Reliable Financial Data.** The quality of agencies' financial information did not deteriorate as they accelerated the preparation and audit of their financial statements; the number of unqualified audit opinions remained the same.
- **More Accurate Data.** In FY 2004, agencies reported more accurate data in their financial statements, as shown by an 82 percent decrease in material errors from seven years ago and 11 percent from last year.

Looking Ahead – Keeping the Focus on Cost Reduction

The Federal Government is managing its costs and spending taxpayer dollars better every year. Every dollar spent by the government should be spent in the most efficient and effective way possible. Through several different initiatives, the government is cutting costs, saving money, and getting its programs to perform better for the benefit of all citizens and taxpayers. The American people expect it, and the Federal Government is doing it.

Source: Taken from the written testimony of Clay Johnson III, Deputy Director for Management, Office of Management and Budget, before the Subcommittee on Federal Financial Management, Government Information, and International Security of the Senate Committee on Homeland Security and Governmental Affairs, on the topic of An Assessment of the President's Management Agenda (April 21, 2005).